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Audit committee chair and financial reporting timeliness: A focus on financial, experiential and monitoring expertise

Abstract

In this study, we examine the association of audit committee chair financial, experiential and monitoring expertise with the audit report lag period. We find that the experiential and monitoring expertise of audit committee chairs have a significant negative association with the delay in the audit report lag period, possibly resulting in more effective audit committee chairs, at least in the face of financial reporting timeliness. We also find that the audit committee composite compliance variable has a significant negative association with the audit report lag period, which suggests that firms' compliance with audit committee regulations is also beneficial for financial reporting timeliness. These are important findings from the practice, academic and public policy perspectives.

Keywords

Audit committee chair, audit report lag, financial reporting timeliness, financial expertise, experiential expertise, monitoring expertise, corporate governance

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1. Introduction

Recent governance changes have placed a particular burden on audit committees and their members. Their workload has grown significantly, with a broad set of responsibilities that require a great deal of diligence in every aspect of their work (Ghafran and O'Sullivan, 2013). The role of the audit committee chair is critical in supporting the audit committee's ability to carry out its responsibilities effectively. It has been argued that an audit committee needs a chair who has the knowledge and commitment to drive the committee's work (Bromilow and Keller, 2011). However, a specific focus on the chair of an audit committee has been missing in the extant academic research.

The audit committee chair is considered the ''*CEO of the audit committee*'' (Ernst and Young 2011, p8) and the ''*focal point for the committee's relations with the board, the CFO, and the internal and external auditors*'' (Schmidt and Wilkins 2013, p227). The chair has greater responsibility than do other audit committee members for financial reporting failures and therefore plays a pivotal role in overseeing financial reporting and essentially determining the effectiveness of the audit committee (Bromilow and Keller, 2011). Recent research has found that the role played by the audit committee chair significantly reflects that of a person who is in charge of steering a group of people (PriceWaterhouseCoopers, 2003; Turley and Zaman, 2007; Ernest and Young, 2011). This role involves ensuring adequate information flows to and from the audit committee; ensuring an open relationship between the committee and management, internal auditors and external auditors; setting the agenda for audit meetings; providing important mediation between the auditor and management team on financial reporting issues; and leading the monitoring of an external auditor (Turley and Zaman, 2007; Tanyi and Smith, 2015). These tasks can have a direct impact on the way the audit committee behaves and responds to its duties. Since one of the main responsibilities[1] of an audit committee is to oversee

the audit engagement process, they can influence the activities of the external auditor, including the time taken to issue the audited financial reports (Sultana, Singh and Mitchell Van der Zahn, 2015). However, given the important role that the audit committee chair plays in the working of audit committees, research examining the characteristics of the audit committee chair[2], specifically in relation to the audit report lag period, has been lacking. In this paper, we therefore consider the characteristics of the audit committee chair in helping reduce the audit report lag period and, hence, improving the financial reporting timeliness[3].

Prior research suggests that the timely provision of accounting information plays an important role in firm value (Beaver, Lambert and Morse, 1980; Schwartz and Soo, 1996; Blankley, Hurtt and MacGregor, 2014) and in reducing the information asymmetry of financial information (Jaggi and Tsui, 1999; Lee, Mande and Son, 2009). Furthermore, financial reporting timeliness has been shown to significantly increase the quality of earnings, reduce the chances that investors will be defrauded, and reduce the uncertainty in evaluations of potential investments and expected payoffs (Feltham, 1972; Hakansson, 1977; Bushman and Smith, 2001). This is even more important in the current information age, where technology, media and a connected globalised world make the relevance-reliability dilemma even more profound. Investors can choose from a proliferation of investment markets that are engaged in high-frequency trading with reduced obstacles to capital flow, resulting in increased market volatility (Sultana *et al*., 2015). Hence, the demand for the timely provision of auditor-verified accounting information is crucial to capital market participants. Moreover, recent regulatory changes in many countries (e.g., the UK, US and Australia) suggest that financial reporting timeliness is also a priority for regulators. Keeping in view the importance of the timely audited reports, in jurisdictions such as the UK, US and Australia, there is a mandatory time period requirement for firms to provide audited financial statements to their shareholders and other key stakeholders (Behn, Sercy and Woodroof, 2006; Doyle and Magilke, 2013; Schmidt and Wilkins, 2013; Sultana *et al*., 2015; Clatworthy and Peel, 2016).

In this study, we investigate the association of a comprehensive range of audit committee chair characteristics with the audit report lag period of UK FTSE350 companies between 2007 and 2010. Specifically, we investigate the association of financial, experiential and monitoring expertise of the audit committee chair with the audit report lag period. Consistent with expectations, our analysis supports a significant negative association between audit committee chair experiential and monitoring expertise and the audit report lag period. These findings suggest that audit committee chairs who have experiential and monitoring expertise are more likely to increase audit committee effectiveness and, in turn, can significantly improve financial reporting timeliness. We also find that the audit committee composite compliance variable has a significant negative association with the audit report lag period, which suggests that the full compliance of firms with audit committee regulations is beneficial for financial reporting timeliness.

Our findings are important from the academic, public policy and practice perspectives. For example, the UK's comply or explain approach to corporate governance offers flexibility to companies in that they either comply with the recommendations/provisions of the Corporate Governance codes or provide explanations for their non-compliance. Wu, Hsu and Haslam, (2016, p 242) argue that although the UK approach is "far from a free for all", it does "usher in a relative degree of liberalism". This sort of approach lends to less formal enforcement in the UK, and in effect, monitoring is delegated to investors, market participants and public opinion. Therefore, the new insight gained from appraising the role of UK audit committee chairs in reducing the audit report lag period and hence benefitting financial reporting timeliness is a fruitful addition to an unexplored environment in the extant literature. Our study is one of the first studies providing evidence in relation to audit committee chair experiential expertise (e.g., serving longer on the board) and the monitoring expertise (e.g., serving on multiple board committees) and the subsequent impact of these expertise on the audit report lag period. On the practice side, our results demonstrate the value of such expertise in improving the effectiveness of the monitoring role of the audit committee chair. Therefore, firms should encourage directors to serve longer on the board and to serve on multiple committees because

these characteristics add to their monitoring capacity, at least in the face of financial reporting timeliness. The significant association of audit committee composite compliance variable with the reduced audit report lag period also sheds light on the importance of compliance with the regulatory initiatives in relation to audit committees. These findings should also encourage regulators to pay more attention to the enforcement of specific audit committee composition requirements.

The remainder of the paper proceeds as follows: the next section presents the development of the hypotheses. Section three describes the sample and our variables, and our empirical analysis and findings are presented in section four. We present our conclusions in section five.

2. Hypotheses Development

Following the extant prior literature on audit committee effectiveness, we focus specifically on the financial, experiential and monitoring expertise of the audit committee chair. The audit committee chair has the greatest responsibility for overseeing the financial reporting process and is thus more likely to be held accountable if anything goes wrong (Tanyi and Smith, 2015). Hence, the following hypotheses focus specifically on those characteristics of the audit committee chair that help constrain the audit report lag period.

2.1 Audit Committee Chair Financial and Experiential Expertise

Due to the complex nature of financial reporting, governance regulators around the globe have shown considerable interest in the financial expertise of audit committee members[4]. Numerous studies have examined the financial expertise of audit committee members in the financial reporting process (Abbott, Parker and Peters, 2004; Agrawal and Chadha, 2005; Carcello, Hollingsworth and Neal, 2006; Krishnan and Visvanathan, 2008; Dhaliwal, Naiker and Navissi, 2010) and found a direct link between the financial expertise of the audit committee and various financial reporting quality-related issues. More recently, Bruynseels and Cardinaels (2014) find that the proportion of financial experts on the audit committee is positively related to the demand for audit effort. He and Yang (2014) report that

the proportion of financial experts on the audit committee is related to significantly lower earnings management, and Schmidt and Wilkins (2013) and Sultana *et al*. (2015) note how companies with more accounting financial expertise on the audit committee are associated with improved financial reporting timeliness.

Given these arguments and the importance of the audit committee chair as a focal point for audit committee effectiveness, we suggest that there is a greater onus on the audit committee chair to be financially literate. In fact, Schmidt and Wilkins (2013) report that audit committee chairs who have accounting financial expertise provide the most timely disclosures. We therefore expect audit committee chair financial expertise to be more valuable than overall audit committee financial expertise because the audit committee chair is likely to be more active in helping constrain the audit report lag, thereby improving financial reporting timeliness. From this discussion, the following hypothesis is proposed:

H1: The audit committee chair financial expertise is negatively associated with the audit report lag period.

Previous researchers have had strong opinions on the impact of experiential expertise of audit committee members on their ability to fulfil their duties competently and effectively. A view taken in earlier empirical studies (Kosnik, 1990; Beasley 1996) was that longer board service allows directors to gain firm-specific knowledge and enables them to better equip themselves to address complicated committee proceedings, resulting in improved performance in protecting shareholder's interests. For example, Beasley (1996) report that firms with a long average board tenure of outside directors are less likely to have financial reporting fraud, and Bedard, Chtourou, and Courteau, (2004) find that audit committee members with longer tenure on the board are associated with less aggressive earnings management. More recently, Abernathy, Beyer, Masli, and Stefaniak (2014) report that audit committee members with longer tenure have a significant negative impact on audit report lag. Similarly, Sun and Liu (2014) find that audit committee members' board tenure is negatively

associated with bank risk, as measured by total risk or idiosyncratic risk. They also find that firm performance is more positively associated with long board tenure, consistent with the notion that audit committee effectiveness may increase risk management effectiveness.

However, there are a small number of studies which argue to the contrary regarding longer-term tenure benefits. For example, Vafeas (2003) argues that longer board service may compromise audit committee directors' independence by bringing directors and management closer, resulting in directors befriending management. In another recent study, Chan, Liu and Sun (2013) also document a negative association between the proportion of audit committee members' length of service on the board and audit fees. Nonetheless, the overall argument is skewed in favour of longer tenure of audit committee members benefiting financial reporting quality. As the role of the audit committee chair is more pivotal, we therefore propose that audit committee chair tenure will also have a direct effect on the audit report lag. In light of the above discussion, this study proposes the following hypothesis:

H2: Audit committee chair experiential expertise is negatively associated with the audit report lag period.

2.2 Audit Committee Chair Monitoring Expertise

We identify monitoring expertise of the audit committee chair through the holding of multiple committee seats. The monitoring role of directors involves overseeing management to reduce potential agency problems. This is undertaken through various board oversight committees, and directors may be required to sit on more than one committee, especially if the board size does not allow a great deal of flexibility. There are many independent directors who devote significant time to monitoring responsibilities by concurrently serving on multiple oversight committees (Heidrick and Struggles, 2007). This can broaden the understanding of the firm and its operating environment, thereby enhancing the ability of independent directors to make better-informed decisions. Consequently, Faleye, Hotaish and Hotaish (2011) argue that independent directors who concurrently serve on multiple oversight committees are more monitoring-intensive and devote significant time

and efforts to oversight duties. These arguments have also been demonstrated in the scant literature. Cook and Wang (2010) find that directors serving on other committees are better informed than are other directors because the former have an informational advantage over other directors. Similarly, Vafeas (2005) note that assigning more monitoring duties to individual independent directors can lead to improvements in oversight quality and reduction in potential agency costs. As a result, Faleye *et al.* (2011) note how these monitoring improvements can cause firms to exhibit a greater sensitivity of CEO turnover to firm performance, lower the excess executive compensation, and reduce earnings management. Some studies however, argue that overcommitting independent directors to monitoring duties can negatively affect the quality and effectiveness of board advising through its influence on board dynamics and the relationship between directors and the CEO. This increased monitoring may come at a cost, as Adams (2009) finds that directors substitute their advising and monitoring roles; thus, if they have a greater monitoring role, they will reduce their advisory function. Similarly, the literature surrounding the holding of multiple directorships also shows competing views. Some findings (Fich and Shivdasani, 2006; Core, Holthausen and Larcker, 1999) argue that board monitoring requires substantial time and effort, which can result in overstretched directors. Conversely, several studies (Fama and Jensen, 1983; Carcello, Hermanson, Neal, and Riley, 2002; Bedard *et al*., 2004; Yang and Krishnan, 2005) document that additional directorships are positively correlated with the reputation of directors as monitoring experts, thus showing that busy directors may be more capable directors than their counterparts.

The audit committee chair has the responsibility of overseeing the audit committee and hence the financial reporting and internal control processes. However, in addition to chairing the audit committee, he/or she may be required to sit on additional board oversight committees. By serving on multiple monitoring committees, the audit committee chair can gain a more complete understanding of the firm. This broader view can aid the audit committee chair in making more informed decisions and may therefore be a better aid in reducing the audit report lag period and improving financial reporting timeliness. We therefore hypothesise the following:

H3: Audit committee chair monitoring expertise is negatively associated with the audit report lag period.

3. Sample and Variables Selection

The study sample for this study comprises FTSE-350 companies between 2007 and 2010. In common with most studies in this area, this study excludes all financial firms, principally insurance companies and banks, due to their different regulatory environments and different reporting conventions to other companies. After omitting firms from the financial sector and those with missing audit committee and financial data, the final sample for this study consists of 987 firm observations. Table 1 contains details of the sampling process. The main sources of information for the study are companies' published annual reports and accounts for the years 2007 to 2010, obtained directly from the companies' websites or accessed using the *FAME* database. The audit committee variables and other board variables data are manually collected.

INSERT TABLE 1 HERE

3.1 Dependent Variable – Audit Report Lag

Audited financial statements and the annual report are often the only reliable sources of information available to existing and potential investors (Leventis, Weetman, and Caramanis, 2005). The timely publication of these documents aids information content and can have an impact on the value of the firm (Sultana *et al.,* 2015), thus making the audit report lag an important and fundamental issue to consider. The dependent variable, audit report lag, is the number of days between a firm's fiscal year-end and the audit report date[5].

3.2 Independent Variables – Audit Committee Chair expertise

We examine the audit committee chair expertise from three perspectives; financial, experiential and monitoring expertise. In relation to financial expertise, we first capture the broader definition of financial expertise of audit committee chairs[6]. Prior research suggests that it may be useful to disaggregate this into accounting-specific and other expertise, with some evidence that the presence of accounting-specific expertise on audit committees may lead to higher-quality financial reporting (Krishnan and Visvanathan, 2008; 2009). Therefore, we further examine variables representing the audit committee chair holding accounting and non-accounting-specific expertise. Second, we capture the experiential expertise of the audit committee chair by focusing on their tenure (i.e., length of board service). In line with the extant research (Beasley, 1996; Dhaliwal *et al.,* 2010), we suggest that length of tenure of the audit committee chair is linked to the experience that they have gained over time and expect that a longer tenure of an audit committee chair is helpful in reducing the audit report lag. We further analyse tenure by focusing on those audit committee chairs who have more than six years of tenure and those with more than nine years of tenure on the board[7]. In relation to audit committee chair monitoring expertise, we capture the number of additional committee seats held by the audit committee chair because the prior literature suggests that holding multiple committee seats increases the monitoring capability of non-executive directors (Faleye *et al*., 2011). To explore this further, we also capture those audit committee chairs who hold at least one additional committee seat and those who hold at least two additional seats.

INSERT TABLE 2 HERE

3.3 Independent Variables – Other Control Variables

In terms of our control variables, we utilise a composite variable (ACE) that represents instances of full compliance with the current governance recommendations with respect to audit committee characteristics. This encapsulates those audit committees composed of at least three members, including at least one financial expert, where all members are independent and meet at least three

times during the financial year. Prior research suggests that such audit committees are helpful in improving financial reporting quality (Abbott, Parker, Peters and Raghunandan, 2003; Zaman, Hudaib and Haniffa, 2011). We also use the proportion of independent non-executive directors serving on the board of directors to represent board independence because, from an agency theory perspective, the ability of the board to act as an effective monitoring mechanism depends on its independence from management (Beasley, 1996; O'Sullivan, 2000). We include the proportion of ownership held by executive directors as a control variable since prior research shows that the ownership of inside directors constrains opportunistic behaviour of directors (Warfield, Wild and Wild, 1995; Garcia-Meca and Sanchez-Ballesta, 2009). Other than these audit committee and board variables, in line with prior research, we have a number of firm-specific control variables that are expected to affect audit report lag. These include firms audited by the Big 4 firms, the proportion of equity held by the block-holders, firm size, firm financial performance, financial leverage, complexity level and an acquisition (Jaggi and Tsui, 2003; Leventis *et al*., 2005; Sultana *et al*., 2015).

4. Key Findings

4.1 Descriptive Statistics

The descriptive statistics in table 3 show that the mean value for audit report lag stands at approximately 64 days, with a median value of 62 days. Of particular interest to our study are the descriptive statistics in relation to the audit committee chair characteristics. The dummy variable representing audit committee chair financial expertise shows that 92 percent of audit committee chairs are financial experts, 72 percent of audit committee chairs are considered accounting experts and 21 percent are non-accounting experts. The average tenure of audit committee chairs stands at 54 months, with a median tenure of 48 months. However, the audit committee chairs' tenure ranges from a minimum term of 1 month to a maximum term of 288 months. Further analysis shows that 27 percent of audit committee chairs have served for more than 6 years on the board and that 7 percent have served for more than 9 years. The average number of additional committee seats held by the

audit committee chair stands at 1.65, with a range of 0 to 3 for other committee seats. Further, 93 percent of audit committee chairs sit on at least 1 additional committee, and 68 percent of audit committee chairs hold at least 2 additional committee seats.

INSERT TABLE 3 HERE

In addition to the characteristics of audit committee chairs, we also employed a composite variable to identify audit committees that conform to all the recommendations in terms of size, independence, meeting frequency and expertise (ACE). A total of 74 percent of the audit committees in our sample satisfy all four of the recommended characteristics. We have also captured the proportion of independent non-executive directors on the board of directors because the current regulation requires firms to disclose such directors in the annual report; we find that 48.3 percent of board members are independent. The average ownership level of executive directors in our sample is 4.2 percent, with a median ownership level of only 0.24 percent. The descriptive statistics of the other control variables suggests that 95 percent of all audits are undertaken by a Big 4 auditing firm; block holders hold, on average, 38 percent of total shares; the mean ROA of firms is 9.08 percent; the gearing levels are, on average, 19.28 percent; the stock and receivable to total assets ratio stands at 27.28 percent; and 58 percent of the firms were involved in an acquisition.

4.2 Correlations

Correlations are interesting in this type of study, as they not only highlight the univariate association between the audit report lag and the explanatory variables but also identify significant correlations among the independent variables. Column one of table 4 highlights that audit committee chair financial expertise and non-accounting specific expertise are significantly negatively correlated with the audit report lag period. Similarly, audit committee chair tenure and chairs over six years of tenure are significantly negatively correlated with the audit report lag. Audit committee chair additional

committee seats are also significantly negatively associated with the audit report lag. These findings suggest that audit committee chairs with financial knowhow, accumulated experience and monitoring expertise are more effective in reducing the audit report lag period and, hence, improving financial report timeliness. Of course, since we have more than one measure of various audit committee chair variables, we see significant correlations between these linked variables.

INSERT TABLE 4 HERE

4.3 Multivariate Regression Analysis

Table 5 presents the multivariate regression results. The tenure of the audit committee chair (i.e., experiential expertise) has a statistically significant and negative association with the audit report lag. This is consistent with Abernathy *et al*. (2014), who found, for audit committee members in general, that longer tenure on the board is associated with a reduced audit report lag. The additional committee seats of the audit committee chair (i.e., monitoring expertise) also has a statistically significant and negative association with the audit report lag. Taken together, these findings suggest that audit committee chairs with experiential and monitoring expertise are possibly more effective in reducing the delay in the audit report being produced and, hence, in improving the timeliness of financial reporting. The impact of audit committee chair financial expertise, although negatively correlated, is statistically insignificant.

From table 5, it is also evident that the composite ACE variable (representing audit committee compliance with the regulatory requirements) has a statistically significant and negative association with the audit report lag. This implies that companies that are in full compliance with current governance recommendations with respect to audit committee characteristics are more effective in improving the timeliness of financial reporting. Furthermore, the variable representing proportionate executive ownership also has a statistically significant and negative association with the audit report lag, thus providing support to the argument that such directors behave in the interest of shareholders

(Garcia-Meca and Sanchez-Ballesta, 2009). The regression results for other variables suggest that the audits provided by the Big 4 firms have a negative association with the audit report lag, as does the size of the firm; however, financial leverage, complexity level and the firms involved in an acquisition all have a positive association with the audit report lag.

INSERT TABLE 5 HERE

In table 6, we explore our findings in more detail. In regressions 2 and 3, we investigate the impact of accounting and non-accounting expertise on audit report lag; however, both of these distinctions of financial expertise are statistically insignificant. The significant association of experiential and monitoring expertise in table 5 has motivated us to explore these results in more detail. In regressions 4 and 5, we extend our investigation of audit committee chair tenure by substituting this variable with variables representing audit committee chair tenure in excess of six years and in excess of nine years with dummy variables. Columns three and four of the regression shown in table 6 suggests that audit committee chairs exceeding six years of tenure have a significant negative association with the audit report delay. This finding, coupled with the results given in table 5, confirms that experiential expertise of audit committee chairs, i.e., accumulated knowledge and experience from serving longer on the board, results in more effective audit committee chairs, at least in the face of improved financial reporting timeliness. Although the current governance regulations in the UK in relation to the longer tenure of non-executive directors raises questions about the independence of these directors, our findings suggest that these policy guidelines may not be equally pertinent to all non-executives, regardless of their role in the organisation, and might be counterintuitive in certain aspects of the financial reporting process. Second, in regression models 5 and 6, we create two more variables, one representing the number of audit committee chairs holding at least one additional committee seat and the other representing the number of audit committee chairs holding at least two additional committee seats. The results show that both of these variables have a statistically significant and

negative association with the audit report delay. These findings suggest that the knowledge gained from serving on additional committees adds to the monitoring expertise of the audit committee chairs, resulting in more effective chairs, as they possibly play a significant role in reducing the audit report delay and hence improving financial reporting timeliness.

INSERT TABLE 6 HERE

4.4 Alternative Variables and Tests

In terms of our dependent variable, we also introduce an adjusted audit report lag variable, where we have captured the essence of the audit report lag when reports are seriously late. We have done this by subtracting the minimum value of audit delay (25 days) from each measure. The regression results are similar to our main findings, which are shown in table 5. Specifically, audit committee chair experiential and monitoring expertise are both statistically significant at the 1% level. The composite variable representing audit committee compliance with regulation is also significant at the 1% level. These findings (untabulated) confirm the robustness of our original results.

Due to the nature of our research approach, particularly the use of financial statements to collect data on our audit committee variables, we were able to compile a comprehensive dataset of audit committee characteristics. This allowed us to test the impact of a number of additional audit committee variables on the audit report lag, although the individual results are not presented here due to a lack of significance and space constraints[8]. This section briefly describes the alternative variables that we have employed in the unreported analysis. First, as a further extension of our data on the expertise of audit committee chair, we collected data on the financial, experiential and monitoring expertise of audit committee members to investigate whether the expertise of audit committee members in general are associated with the audit report lag. None of these variables were statistically significant in any of our regressions. Second, we collected data on the other directorships held by the audit committee chair and by the other audit committee members to investigate whether

audit committee chairs or non-chair members' busyness had any association with the audit report lag. However, these variables were also statistically insignificant. In addition to these additional expertise and busyness variables, we have collected data on audit committee composition. This includes data on audit committee compliance with the regulations in relation to the individual four elements of audit committees recommended by UK regulators[9]. We find that audit committees that meet at least three times a year have a negative and significant association with the audit report lag period, thus suggesting a possible beneficial impact of diligent audit committees in improving financial reporting timeliness.

One pertinent concern in corporate governance research is the issue of endogeneity among the dependent and explanatory variables (Abdallah, Goergen, and O'Sullivan, 2015). Endogeneity describes the possibility of either the dependent variable being driven by one or more explanatory variable or the possibility that the dependent variable itself may influence one or more of the independent variables. We address these issues of endogeneity, specifically for audit committee chair experiential and monitoring expertise and audit report lag period, by employing an instrumental variable approach, i.e., two-stage least squares (Whisenant, Sankaraguruswamy and Raghunandan, 2003; Krishnan, Wen and Zhao, 2011). Our first instrumental variable is the number of audit committee chairs with accounting expertise. Given that governance requirements around the globe (SOX, 2002; UK Corporate Governance Code, 2003 – 2016; FRC, 2015) place specific importance on accounting expertise for audit committee members, we expect members with such expertise to be in high demand and therefore highly mobile (and hence have less board tenure) than do their counterparts. Our second instrumental variable is the number of additional directorships held by the audit committee chair. Fama and Jensen (1983) document that additional directorships are positively correlated with the reputation of directors as monitoring experts; therefore, we expect audit committee chairs with more additional directorships to have more committee seats than do their counterparts.

The first stage regressions, consistent with our expectations, show that the coefficient estimates for both of our instruments are in the predicted direction and significant at the 1% level. This suggests that audit committee chairs with (without) accounting expertise tend to have reduced (increased tenure) and that audit committee chairs with more additional directorships tend to be selected to sit on more committees than do their counterparts. Both instrumental variables are not correlated with our dependent variable 'log audit delay'. Table 7 presents the second-stage results, whereby we re-estimate our original regressions by utilising the predicted values of the potential endogenous variables. The results confirm our earlier findings. Specifically, after controlling for possible endogeneity between audit committee chair expertise variables and audit report lag, both variables of interest, e.g., experiential and monitoring expertise are still significant at the 5% level, respectively.

INSERT TABLE 7 HERE

5. Conclusions

Recent research has found the role played by the audit committee chair significantly reflects that of a person who is in-charge of steering a group of people. This is consistent with how the audit committee chair has been viewed by various accounting bodies. This study therefore seeks to investigate whether the financial, experiential and monitoring expertise of the audit committee chair has any impact on reducing the audit report lag period. We find that audit committee chairs who have experiential and monitoring expertise are more effective in constraining the audit report lag and, hence, improving financial reporting timeliness. These findings add significantly to our understanding of acquiring additional knowhow of the firm in these roles by either serving longer or having additional committee seats as well as the importance of such expertise in relation to financial reporting timeliness.

The focus of the study is on the largest 350 companies listed on the London Stock Exchange (FTSE350). These firms are much more likely to be under regulatory and media scrutiny, one should

take care in generalising these findings for smaller and/or unlisted firms. These findings serve to pave the way for future studies to broaden the existing academic enquiry beyond the FTSE350 and explore the importance of such characteristics for other small listed companies. We also encourage further research exploring the importance of such expertise in the wider governance arena and not just in relation to audit committees. As our study utilises a purely quantitative methodology, we suggest that to better understand the different constructs discussed in this study, future research could take a more in-depth understanding of the role of the audit committees; therefore, we call for qualitative studies in this area. Similar to this study, the existing research on audit committees is conducted almost exclusively in the context of agency theory. However, research into corporate governance should acknowledge the broader social responsibility role of organisations and their relevance to stakeholders other than shareholders. This would relate more closely to the current expectations of governance oriented research from a broad range of theoretical paradigms.

Notes

[1] To monitor the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgements contained in them; to review the company's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors, or by the board itself, to review the company's internal control and risk management systems; to monitor and review the effectiveness of the company's internal audit function; to make recommendations to the board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor; to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken; and to report to the board on how it has discharged its responsibilities (The UK Corporate Governance Code, 2016, p18).

[2] Carcello, Hermanson and Ye, (2011, p26) report this as "an unfortunate oversight" and a field "worthy of future study".

[3] Audit report lag has an inverse relationship with the financial reporting timeliness.

[4] In the United States, the Sarbanes-Oxley Act (2002) mandates audit committees to include at least one financial expert and requires the rest of the members to be financially literate. In the United Kingdom, the UK Corporate Governance Code (2014, p 17) recommends that '*at least one member of the audit committee should have significant, recent and relevant financial experience*'. The Financial Reporting Council is currently proposing to replace the requirement for an audit committee member to have 'recent and relevant financial experience' to at least one member should have 'competence in accounting and/or auditing' (FRC, 2015).

[5] Some studies have also utilised financial statement restatement periods (Schmidt and Wilkins, 2013) and the filing of 10 K reports (Abernathy *et al,* 2014) as proxies for financial reporting timeliness. However, due to data availability issues, this study focuses on audit report lag days.

[6] The current UK Corporate Governance Code (2014), or any of its predecessors, does not provide a precise definition of what it means by financial expertise. As a result, for the purposes of this study, we followed the SEC's definitions, which is also used by DeFond, Hann and Hu (2005) and other US-based studies, whereby an *accounting financial expert (*AFE) is defined as a person who has previously held or currently holds a job directly related to accounting and auditing expertise. These include CPAs, CFOs, CAOs, controllers, and auditors. A *non-accounting financial expert*, on the other hand, is defined as a person who has experience as an investment banker, financial analyst, or any other financial management role; or experience obtained from supervising the preparation of financial statements (e.g., chief executive officer or company president). We follow this with appropriate modifications for the UK context in identifying financial expertise generally and distinguishing between accounting and non-accounting expertise.

[7] This is motivated by current governance regulation in the UK, which raises concerns about the independence of non-executives with extended tenure, specifically raising concerns about those with tenure exceeding six years and categorizing those non-executives with tenure in excess of nine years as not being independent.

[8] All unreported results are available from the authors on request.

[9] Current governance recommendations in respect to audit committee characteristics include audit committees comprising at least three members and containing at least one financial expert, and all members being independent and meeting at least three times during the financial year.

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Tables

Table 1 (a): Sample selection process

Description	2007	2008	2009	2010	Total
FTSE350	350	350	350	350	1400
Financial firms	75	75	75	75	300
Missing AC and DataStream information	27	27	26	25	105
Outliers	2	2	2	2	8
Final sample size	246	246	247	248	987

Table 1 (b): Industry distribution of sample firms

Industry Name	N	Percentage
Consumer Goods	216	21.88
Industrials	294	29.79
Mineral extraction	79	8.00
Services	342	34.65
Utilities	56	5.67
Final Sample Size	987	100

Table 2: Variable definitions

Variable Label	Definitions
Audit report lag	Number of days between a firm's fiscal year-end and the audit report date.
AC chair financial expertise	Dummy variable (=1 if audit committee chair is a financial expert; =0 otherwise)
AC chair accounting expertise	Dummy variable (=1 if audit committee chair is an accounting expert; =0 otherwise)
AC chair non-accounting expertise	Dummy variable (=1 if audit committee chair is a non-accounting expert; =0 otherwise)
AC chair tenure	Audit committee chair length (months) of service on the board
AC chair tenure over 6 years	Dummy variable (=1 if audit committee chair length of service on the board exceeds 6 years; =0 otherwise).
AC chair tenure over 9 years	Dummy variable (=1 if audit committee chair length of service on the board exceeds 9 years; =0 otherwise).
AC chair additional committees	Number of additional committee seats held by the audit committee chairs
AC chair 1 plus committees	Dummy variable (=1 if audit committee chair holds at least 1 additional committee seat; =0 otherwise)
AC chair 2 plus committees	Dummy variable (=1 if audit committee chair holds at least 2 additional committee seats; =0 otherwise)
ACE	Dummy variable (=1 if audit committee has 3 or more members; contains 1 financial expert; comprises only independent directors and has held 3 or more meetings during the year; =0 otherwise)
% Independent directors	Percentage of board represented by independent non-executive directors
% Executive share ownership	Percentage of equity held by executive directors
Big4	Dummy variable (=1 if audited by PricewaterhouseCoopers, KPMG, Deloitte and Touche or Ernst & Young; =0 otherwise)
% Block-holding	Proportion of equity held by the block holders
Log total assets	Log of total assets
% ROA	Return on assets
% Gearing	Debt to equity ratio
Log of subsidiaries	Log of subsidiaries
Receivables-inventory ratio	Ratio of trade receivables and inventory to total assets
Acquisition	Dummy variable (=1 if the company made an acquisition in the last year =0 otherwise)

Table 3: Descriptive statistics

Variables[1]	Mean	Median	St.dev	Minimum	Maximum
Audit Report Lag	63.84	62.00	15.491	25	131
Log Audit Lag	1.79	1.79	0.10	1.40	2.12
AC chair financial expertise	.92	1.00	.266	0	1
AC chair accounting expertise	.72	1.00	.450	0	1
AC chair non-accounting expertise	.21	.00	.404	0	1
AC chair tenure (months)	54.33	48.00	37.119	1	288
AC chair tenure over 6 years	.27	.00	.445	0	1
AC chair tenure over 9 years	.07	.00	.259	0	1
AC chair additional committees	1.65	2.00	.673	0	3
AC chair 1 plus committees	.93	1.00	.258	0	1
AC chair 2 plus committees	.68	1.00	.466	0	1
ACE	.74	1.00	.437	0	1
% Independent directors	48.32	50.00	11.17	10.53	85.71
% Executive share ownership	4.02	0.24	11.04	0.00	67.74
Big4	0.95	1.00	0.21	0.00	1.00
% Block-holding	38.34	38.19	17.84	0.00	92.40
Log total assets	9.04	8.97	0.66	7.52	11.19
% ROA	9.08	7.63	10.80	-83.57	118.56
% Gearing	19.28	16.89	16.91	0.00	80.67
Log of subsidiaries	1.22	1.26	0.39	0.00	2.23
Receivables-Inventory ratio	27.28	25.02	19.53	0.00	97.92
Acquisition	0.58	1.00	0.49	0.00	1.00

[1] Definitions of variables are given in table 1

Table 4: Correlation matrix[1]

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
1 Log Audit Lag	1																				
2 Chair financial expertise	-*.071*	1																			
3 Chair accounting expertise	.015	**.460**	1																		
4 Chair non-accounting expertise	-*.064*	**.147**	**-.811**	1																	
5 Log chair tenure	**-.109**	.040	**-.113**	**.151**	1																
6 Chair tenure over 6 years	-*.076*	-.059	**-.141**	**.118**	**.619**	1															
7 Chair tenure over 9 years	.025	-.022	**-.182**	**.187**	**.397**	**.457**	1														
8 AC chair additional committees	-*.081*	.003	.051	-.055	**.090**	.035	-.005	1													
9 AC chair 1 plus committees	-*.075*	-.034	.029	-.055	.054	.037	-.006	**.682**	1												
10 AC chair 2 plus committees	-*.068*	.014	*.076*	-*.076*	*.085*	.040	.011	**.890**	**.406**	1											
11 ACE	**-.184**	*.069*	-.024	*.072*	.048	-.049	-.041	-.033	-.027	-.029	1										
12 % Independent directors	**-.133**	-.001	-.053	.058	.048	-.003	-.059	**-.202**	**-.187**	**-.205**	**.433**	1									
13 % Executive share ownership	*.069*	.022	.039	-.030	-.031	.015	.059	.007	.026	-.008	**-.197**	**-.227**	1								
14 Big4	**-.175**	*.065*	*.079*	-.045	.033	.010	-.053	.009	-.042	.028	**.228**	**.120**	**-.166**	1							
15 % Block-holding	**.105**	**-.096**	-.002	-.061	.016	-.013	.014	.051	*.063*	.047	**-.098**	**-.110**	**-.104**	*.075*	1						
16 Log total assets	**-.255**	**.130**	-.040	**.130**	.022	-.026	-*.076*	**-.159**	**-.145**	**-.195**	**.362**	**.451**	**-.187**	**.183**	**-.357**	1					
17 % ROA	.030	-.012	-.018	.013	-.054	.001	-.003	-.026	-.026	-.012	-.015	-.028	*.076*	-*.065*	-.028	**-.216**	1				
18 % Gearing	**-.121**	*.066*	.036	.003	-.006	-.059	-.010	.014	-.007	-.001	**.110**	.051	**-.137**	**.199**	.019	**.311**	**-.247**	1			
19 Log of subsidiaries	.022	.036	-.019	.045	.018	.025	-.032	-.041	-*.077*	-.059	**.110**	**.114**	**-.092**	**.118**	-.043	**.296**	-.058	.023	1		
20 Receivables-Inventory ratio	**.093**	-*.072*	-.022	-.023	.021	.026	-.063	**.102**	**.089**	**.129**	-.026	**-.103**	-.049	.045	.020	**-.224**	.027	**-.275**	-.045	1	
21 Acquisition	-.011	.009	-.037	.047	-.005	-.022	-*.072*	**-.107**	**-.092**	**-.116**	**.123**	.042	**-.105**	*.081*	-*.076*	**.229**	-.040	*.071*	**.265**	-*.066*	1

[1]Bold and italic font represent significant correlations at 1% and 5% respectively

Table 5: The association of audit committee chair expertise and audit report lag (***, **, * represent significant correlations at 1%, 5% and 10% respectively)

Variables	Expected Sign	Coefficient	T Value	VIF
AC Chair financial expertise	-	-.002	-.135	1.068
Log of AC chair tenure	-	-.026	-2.916***	1.036
AC Chair additional committees	-	-.014	-2.790***	1.141
ACE	-	-.020	-2.244**	1.401
% Independent directors	-	.000	-.668	1.551
% Executive share ownership	-	-.001	-2.056**	1.206
Big4	-	-.051	-2.918***	1.186
% Block-holding	-	.000	.303	1.337
Log total assets	-	-.053	-7.073***	2.514
% ROA	-	-.001	-1.596	1.181
% Gearing	+	.000	1.683*	1.393
Log of subsidiaries	+	.034	3.703***	1.282
Receivables-Inventory ratio	+	.000	2.625***	1.359
Acquisition	+	.017	2.499**	1.193
Industry Dummy		Included		
Year Dummy		Included		
Constant		2.362	33.65***	
F Test		10.481***		
(Adjusted) R2		.184		

Table 6: The association of audit committee chair expertise and audit report lag (***, **, * represent significant correlations at 1%, 5% and 10% respectively)

Variables	AC Chair Financial Expertise				AC Chair Experiential Expertise				AC Chair Additional Committee Seats			
	Accounting		Non-accounting		Tenure>6		Tenure>9		1 additional seat		2 additional seats	
	Coefficient	T Value			Coefficient	T Value	Coefficient	T Value	Coefficient	T Value	Coefficient	T Value
Chair financial expertise					-.005	-.422	-.003	-.266	-.003	-.225	-.001	-.080
Chair accounting expertise	.010	1.347										
Chair non-accounting expertise			-.013	-1.589								
Log of chair tenure	-.024	-2.716***	-.023	-2.597**					-.027	-3.083***	-.026	-2.943***
Chair tenure over 6 years					-.023	-3.236***						
Chair tenure over 9 years							-.009	-.701				
Chair additional committees	-.014	-2.857***	-.014	-2.879***	-.015	-2.962***	-.016	-3.122***				
Chair 1 plus committee seats									-.033	-2.599***		
Chair 2 plus committee seats											-.019	-2.685***
ACE	-.020	-2.266**	-.019	-2.186**	-.021	-2.453**	-.020	-2.239**	-.020	-2.281**	-.020	-2.253**
% Independent directors	.000	-.608	.000	-.699	.000	-.745	.000	-.824	.000	-.637	.000	-.599
% Executive share ownership	-.001	-2.109**	-.001	-2.098**	-.001	-2.046**	-.001	-2.000**	-.001	-1.989**	-.001	-2.112**
Big4	-.053	-3.024***	-.053	-3.034***	-.050	-2.874***	-.052	-2.953***	-.053	-3.042***	-.050	-2.880***
% Block-holding	.000	.331	.000	.250	.000	.133	.000	.218	.000	.471	.000	.248
Log total assets	-.053	-7.136***	-.053	-7.056***	-.054	-7.125***	-.054	-7.127***	-.051	-6.877***	-.054	-7.101***
% ROA	.000	-1.571	-.001	-1.590	.000	-1.525	.000	-1.526	.000	-1.557	.000	-1.574
% Gearing	.000	1.664*	.000	1.645	.000	1.648	.000	1.733*	.000	1.606	.000	1.663*
Log of subsidiaries	.034	3.722***	.034	3.739***	.034	3.768***	.034	3.697***	.031	3.478***	.033	3.676***
Stock-inventory ratio	.000	2.663***	.000	2.644***	.000	2.642***	.000	2.507**	.000	2.631***	.001	2.662***
Acquisition	.018	2.568**	.018	2.546**	.017	2.434**	.017	2.412**	.018	2.623***	.017	2.489**
Industry Dummy	Included		Included		Included		Included		Included		Included	
Year Dummy	included		included		included		Included		Included		Included	
Constant	2.355	33.741***	2.361	33.889***	2.337	33.619***	2.338	33.397***	2.357	33.619***	2.354	33.792***
F Test	10.588***		10.631***		10.597***		10.007***		10.420***		10.447***	
(Adjusted) R2	.186		.186		.186		.176		.183		.183	

Table 7: The association of audit Committee chair expertise and audit report lag using the two stage least squares (2SLS) approach (***, **, * represent significant correlations at 1%, 5% and 10% respectively)

Variables	Expected Sign	Coefficient	T Value
AC Chair financial expertise	-	-.001	-.096
Log of AC chair tenure[z]	-	-.033	-2.160**
AC Chair additional committees[z]	-	-.024	-2.312**
ACE	-	-.017	-1.935*
% Independent directors	-	.000	-.904
% Executive share ownership	-	-.001	-1.862*
Big4	-	-.050	-2.851***
% Block-holding	-	.000	.292
Log total assets	-	-.055	-7.058***
% ROA	-	-.001	-1.751
% Gearing	+	.000	1.712*
Log of subsidiaries	+	.035	3.802***
Receivables-Inventory ratio	+	.001	2.737***
Acquisition	+	.016	2.267**
Industry Dummy		Included	
Year Dummy		Included	
Constant		2.402	32.05***
F Test		10.471***	
(Adjusted) R2		.183	